

City of Hallandale Beach

Investment Performance Review
Quarter Ended December 31, 2011



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December 31, 2011 PFM Month-End Statement

(PFM Month End Statement is available online at www.pfm.com)

PFM Funds December 31, 2011 Month-End Statement

(PFM Funds Month End Statement is available online at www.pfmfund.com)

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Summary

- Quarterly returns for fixed income were positive but failed to beat returns on domestic equities.
- For the quarter, short- to intermediate-duration portfolios with diversified fixed-income holdings outpaced money market accounts that avoided European exposure, including Libor-based time deposits.
- PFM strives to maintain the safety of principal while at the same time positioning for growth and searching for tactical opportunities to enhance return.

Economic News

Growth in the U.S. has improved while the uncertainty surrounding Europe continues. Gross domestic product (GDP) in the U.S. has shown steady increases over the first three quarters of 2011, coming in at 0.4%, 1.3% and 1.8%, respectively. Most projections for fourth-quarter GDP growth are near 3%. Although much of the economic expansion can be attributed to the release of pent-up demand for autos and a restocking of inventories by businesses, positive signals have emerged, showing more stabilization and a fundamental strengthening of the domestic economic recovery.

While signs of tentative recovery are now occurring in the housing market, there is still a significant amount of foreclosures in the pipeline, suggesting a higher inventory of unoccupied houses. A massive downward revision to earlier existing-home sales data showed that the housing market suffered a larger loss than many previously thought. Sales from 2007 onward have had significant downward revisions of 14% on average. Recently,

though, there have been positive trends in home sales, with the October-November average annual rate of home sales up 20% from the third quarter. In November, existing-home sales rose 4.0%, significantly above the consensus of 2.2%, while new-home sales rose by 1.6% and housing starts increased by 9.3%.

Indicators are showing improvement in labor market conditions, but there is still much that needs to be resolved in this arena as well. The unemployment rate fell to a 2½-year low of 8.5% in December; however, much of this outcome has to do with the fact that the labor force participation rate has reached a two-year low. Market participants continue to wait for the abatement of excess slack in the labor market.

Results for the Conference Board's Consumer Confidence Survey reflected an increase in positive sentiment, with the number of respondents reporting that jobs are currently "hard to get" falling to 41.8%, the lowest level of the recovery. This development, along with other strong economic releases in the fourth quarter, led to robust quarterly performance for U.S. equities. The S&P 500 Index increased 11.8% in the fourth quarter, erasing the losses in the previous two quarters.

U.S. Treasury Yields – Quarter and Year-over-Year Changes

| Date | 3-month | 1-year | 2-year | 5-year | 10-year | 30-year |
|----------------------------|---------|--------|--------|--------|---------|---------|
| 31-Dec-11 | 0.01% | 0.10% | 0.24% | 0.83% | 1.88% | 2.89% |
| 30-Sep-11 | 0.02% | 0.10% | 0.24% | 0.95% | 1.92% | 2.91% |
| Change over Quarter | -0.01% | 0.00% | 0.00% | -0.12% | -0.04% | -0.02% |
| 31-Dec-10 | 0.12% | 0.26% | 0.59% | 2.01% | 3.29% | 4.33% |
| Change over Year | -0.11% | -0.16% | -0.35% | -1.18% | -1.41% | -1.44% |

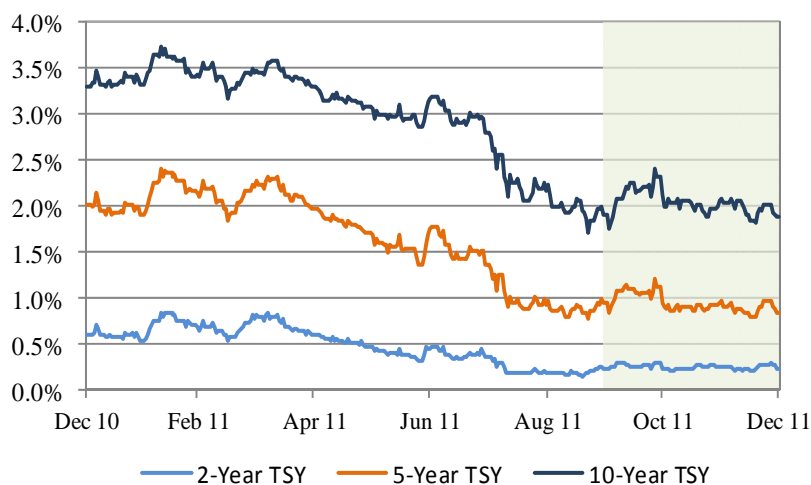
Source data: Bloomberg

Interest Rates

U.S. Treasuries fluctuated within a narrow range, finishing the quarter close to where they began. Short-term rates remained near zero due to the Federal Reserve's (Fed's) continued commitment to keep the target rate between zero and 0.25% until at least mid 2013. Meanwhile, intermediate- and long-term rates have stabilized due to the offsetting forces of positive economic data in the U.S., a flight-to-quality reaction to the European debt crisis and the Fed's Operation Twist program, where the U.S. central bank purchases longer-dated securities while selling shorter-dated securities in an effort to keep longer-term interest rates down.

2-Year, 5-Year, and 10-Year U.S. Treasury Note Yields

December 31, 2010 through December 31, 2011



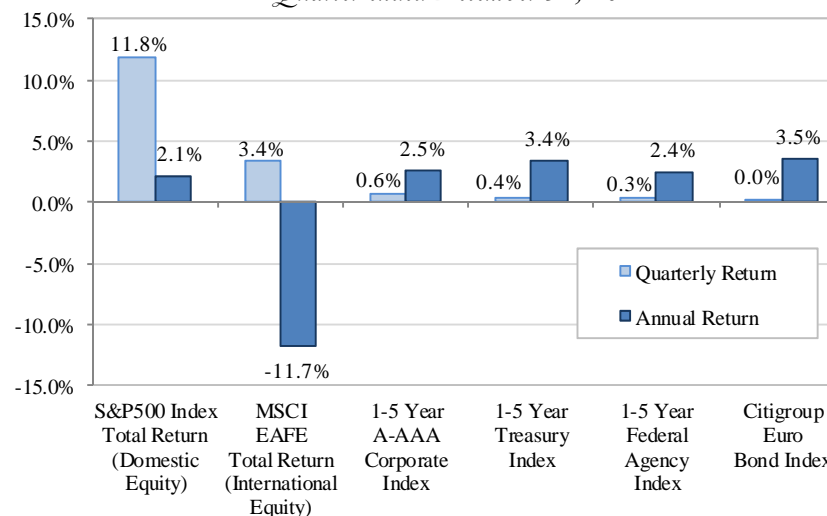
Source: Bloomberg

Bond Markets

Although signs point towards a stronger economy in the U.S., continued uncertainty in the global economic outlook has resulted in investors becoming more cautious and gravitating towards securities that are perceived to be less risky. Assets have flowed out of prime money market funds into government funds on concerns of the funds' potential exposure to the sovereign debt of struggling European nations. Treasuries have benefitted from this need for safety, posting positive performance for the quarter. Treasury yields are still hovering around their record lows. Agency spreads widened during the fourth quarter, while corporate spreads tightened. Both sectors offered value for investors.

Total Returns of Various Asset Classes

Quarter ended December 31, 2011



Sources: Bank of America Merrill Lynch, Citigroup, Bloomberg

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Executive Summary

PORTFOLIO STRATEGY

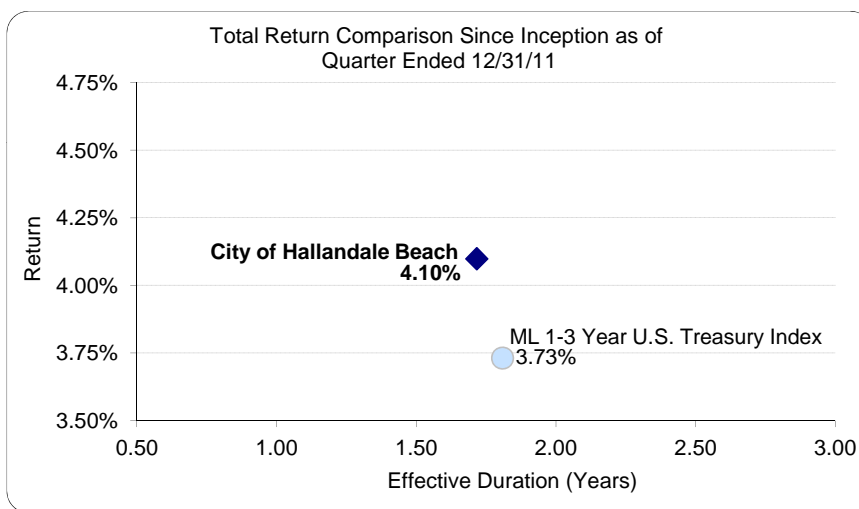
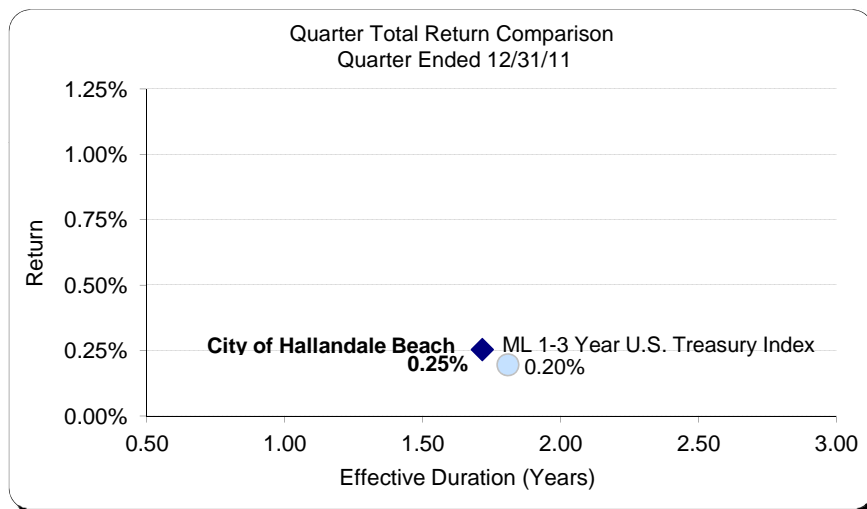
- The City's Investment portfolio is of high credit quality and entirely invested U.S. Treasury, Federal Agency and corporate note securities.
- For the third quarter in a row, Treasuries outperformed Agencies. The near-zero net change in yields belies the volatility seen intra-quarter. We used this movement in spreads to take profits on agency holdings, and to reset those positions on sell-offs in risky assets. On several occasions, agencies tightened on expectations of a possible solution to the European debt crisis, only to widen again when various proposals disappointed.
- With the strengthening U.S. economy juxtaposed against an unsettled European debt situation, we expect U.S. Treasury rates to continue to move in a narrow range at or near historic lows.
- The Fed could well seek to provide further support for the U.S. economy by communicating the intention to maintain its extraordinarily accommodative monetary policy far into the future, or by establishing specific employment and inflation hurdles that would have to be breached before it changes its current policy stance. This supports the view that rates will remain low longer than the market current anticipates.
- The yield curve is likely to remain positively sloped, anchored for the foreseeable future by the near-zero federal funds rate. In this environment, lengthening duration should provide value, although longer duration investments have greater price risk if interest rates should rise.
- Relative-value trading provided another way for PFM to enhance client returns. We identified several opportunities this quarter to add yield by selling relatively rich agency issues and buying similar maturity issues trading relatively cheaper. This can occur for a variety of reasons including supply/demand factors, the need for dealers to adjust their inventory, or new issue concessions. The portfolio realized over \$60,000 in gains on sales, as a result of active management during the quarter.
- With interest rates falling to historic lows, we maintained a slightly conservative duration posture for the Investment Portfolio at around 95% of the benchmark's duration to retain flexibility. Even though short-term rates have remained near 0% for over three years, the portfolio earned a total return of 1.65% over the past year.
- As of the beginning of the new year, tight spreads on shorter maturities favor U.S. Treasuries. Spread relationships have been unusually volatile recently and we will continue to evaluate those relationships to seek the best value for the least amount of risk.
- Europe remains a highly fluid and problematic situation, as Italy and Spain appear headed for recession. Sovereign credit ratings are under pressure, and large European banks are being forced to shed assets and raise large amounts of capital. A clear solution appears elusive. We continue to avoid sensitive issuers and geographical regions.
- As always, we strive to maintain the safety of principal while at the same time positioning the Investment Portfolio for growth and searching for tactical opportunities to enhance return. In these changing times, our strategy will remain flexible and may change in response to changes in interest rates, economic data, market outlook or specific opportunities that arise.

Investment Portfolio Performance

| Total Portfolio Value^{1,2} | | December 31, 2011 | September 30, 2011 |
|--|--|--------------------------|---------------------------|
| Market Value | | \$48,829,745.72 | \$48,705,956.24 |
| Amortized Cost | | \$48,489,827.86 | \$48,318,049.00 |

| Total Return^{1,2,3,4,5,6,7,8} | Quarterly Return December 31, 2011 | Calendar Year to Date | Last 12 Months | Last 24 Months | Since Inception December 31, 2005 |
|---|---|----------------------------------|---------------------------|---------------------------|--|
| Investment Portfolio | 0.25% | 1.65% | 1.65% | 2.03% | 4.10% |
| Merrill Lynch 1-3 Year U.S. Treasury Index | 0.20% | 1.55% | 1.55% | 1.95% | 3.73% |

| Effective Duration(Years)⁴ | December 31, 2011 | September 30, 2011 | Yields | December 31, 2011 | September 30, 2011 |
|--|--------------------------|---------------------------|-----------------|--------------------------|---------------------------|
| Investment Portfolio | 1.72 | 1.63 | Yield at Market | 0.47% | 0.47% |
| Merrill Lynch 1-3 Year U.S. Treasury Index | 1.81 | 1.81 | Yield at Cost | 0.91% | 0.96% |
| Portfolio Duration % of Benchmark Duration | 95% | 90% | | | |

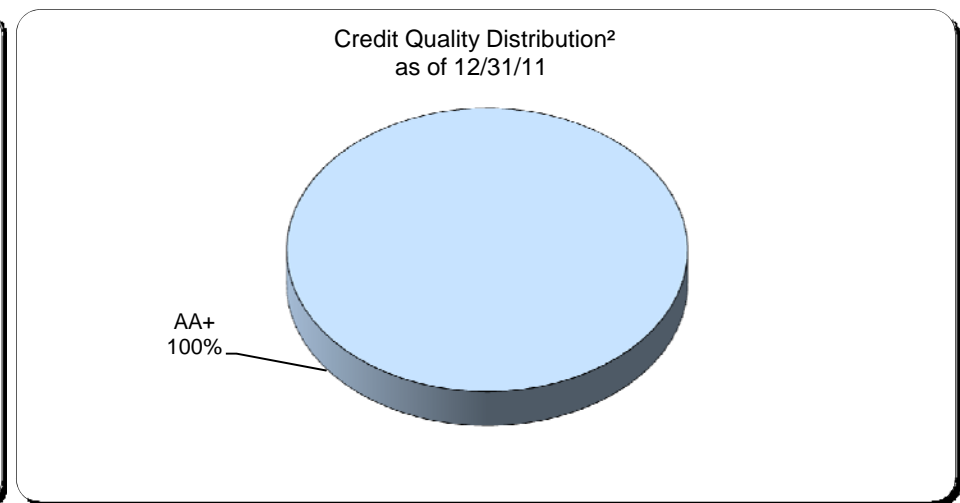
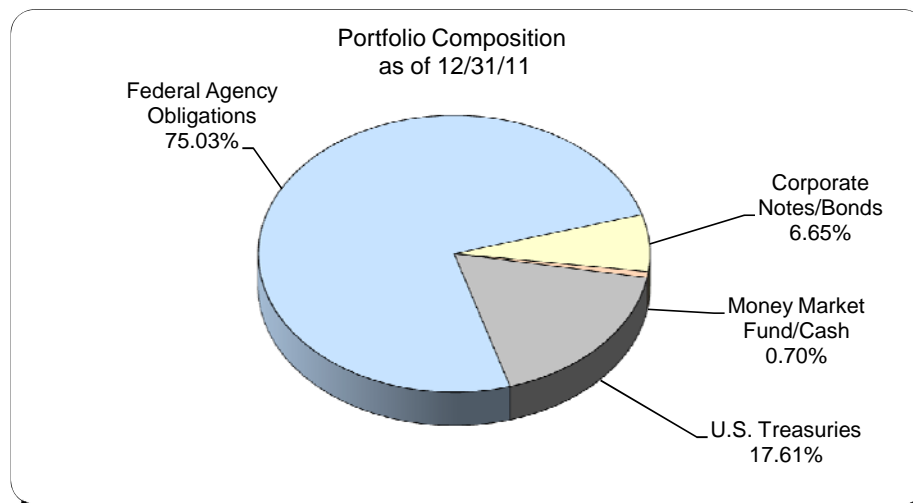


Notes:

1. In order to comply with GASB accrual accounting reporting requirements; forward settling trades are included in the monthly balances.
2. End of quarter trade-date market values of portfolio holdings, including accrued interest.
3. Performance on trade date basis, gross (i.e., before fees), is in accordance with The CFA Institute's Global Investment Performance Standards (GIPS).
4. Merrill Lynch Indices provided by Bloomberg Financial Markets.
5. Quarterly returns are presented on an unannualized basis.
6. Includes money market fund/cash in performance and duration computations.
7. Returns presented for 12 months or longer are presented on an annual basis.
8. Past performance is not indicative of future results.

Investment Portfolio Composition and Credit Quality Characteristics

| <u>Security Type¹</u> | <u>December 31, 2011</u> | <u>% of Portfolio</u> | <u>September 30, 2011</u> | <u>% of Portfolio</u> |
|----------------------------------|--------------------------|-----------------------|---------------------------|-----------------------|
| U.S. Treasuries | \$8,600,235.88 | 17.6% | \$5,643,814.38 | 11.6% |
| Federal Agencies | 36,638,788.25 | 75.0% | 36,612,214.75 | 75.2% |
| Commercial Paper | 0.00 | 0.0% | 1,039,644.32 | 2.1% |
| Certificates of Deposit | 0.00 | 0.0% | 0.00 | 0.0% |
| Bankers Acceptances | 0.00 | 0.0% | 0.00 | 0.0% |
| Repurchase Agreements | 0.00 | 0.0% | 0.00 | 0.0% |
| Municipal Obligations | 0.00 | 0.0% | 0.00 | 0.0% |
| Corporate Notes/Bonds | 3,247,420.83 | 6.7% | 3,223,550.72 | 6.6% |
| Corporate Notes-FDIC Insured | 0.00 | 0.0% | 2,039,306.67 | 4.2% |
| Mortgage Backed | 0.00 | 0.0% | 0.00 | 0.0% |
| Money Market Fund/Cash | 343,300.76 | 0.7% | 147,425.40 | 0.3% |
| Totals | \$48,829,745.72 | 100.0% | \$48,705,956.24 | 100.0% |

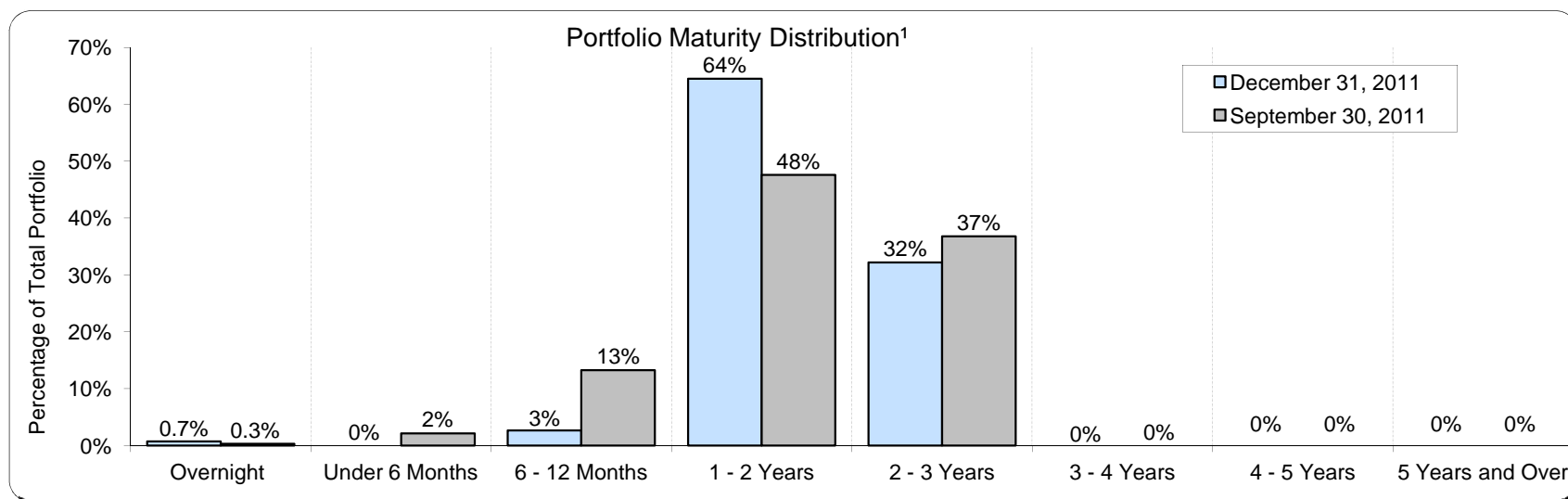


Notes:

1. End of quarter trade-date market values of portfolio holdings, including accrued interest.
2. Credit rating of securities held in portfolio, exclusive of money market fund/LGIP. Standard & Poor's is the source of the credit ratings.

Investment Portfolio Maturity Distribution

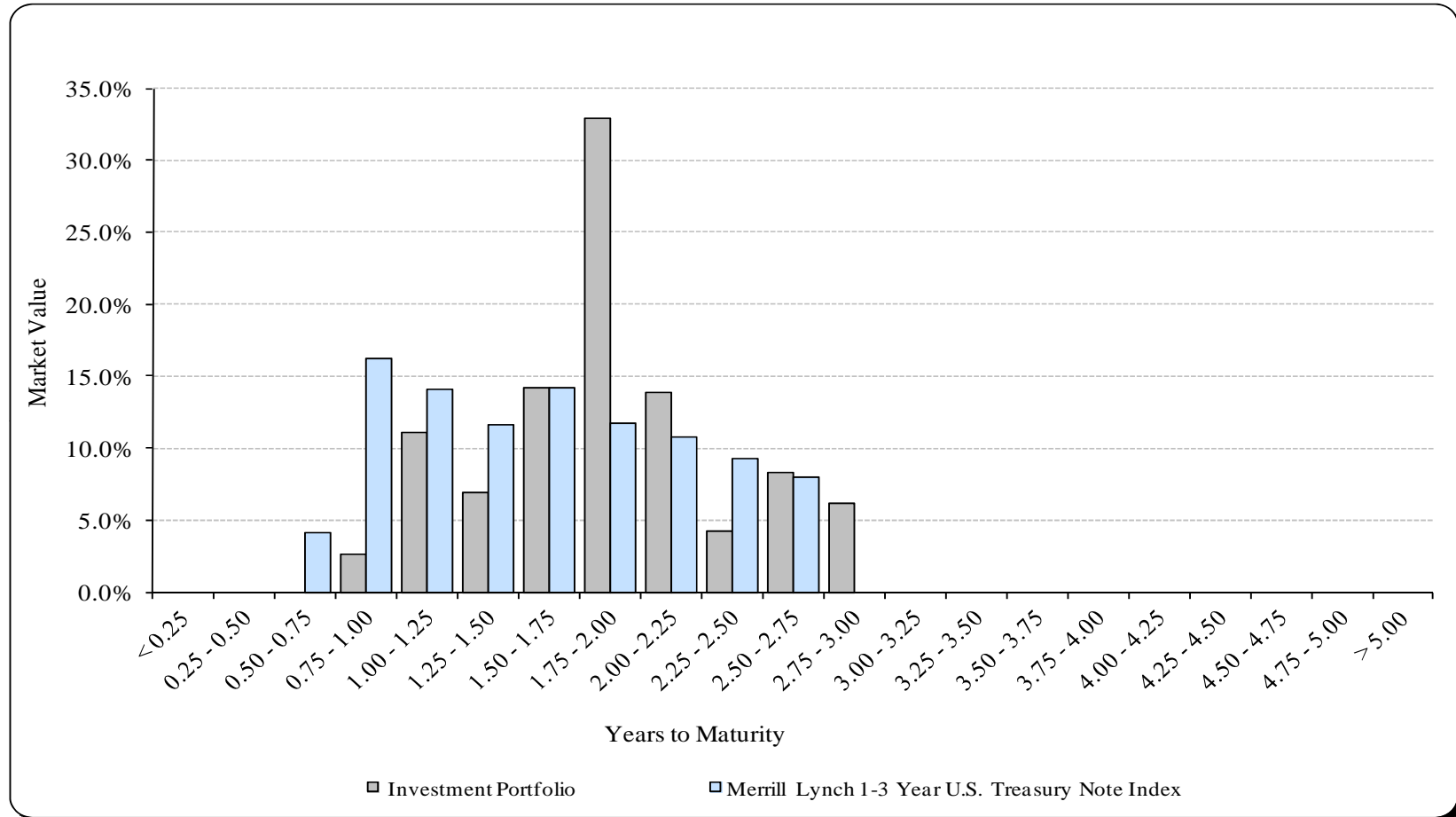
| <u>Maturity Distribution¹</u> | <u>December 31, 2011</u> | <u>September 30, 2011</u> |
|--|--------------------------|---------------------------|
| Overnight (Money Market Fund) | \$343,300.76 | \$147,425.40 |
| Under 6 Months | 0.00 | 1,039,644.32 |
| 6 - 12 Months | 1,280,386.80 | 6,442,780.63 |
| 1 - 2 Years | 31,485,307.72 | 23,171,037.42 |
| 2 - 3 Years | 15,720,750.44 | 17,905,068.47 |
| 3 - 4 Years | 0.00 | 0.00 |
| 4 - 5 Years | 0.00 | 0.00 |
| 5 Years and Over | 0.00 | 0.00 |
| Totals | \$48,829,745.72 | \$48,705,956.24 |



Notes:

1. Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

Investment Portfolio Maturity Distribution versus the Benchmark¹



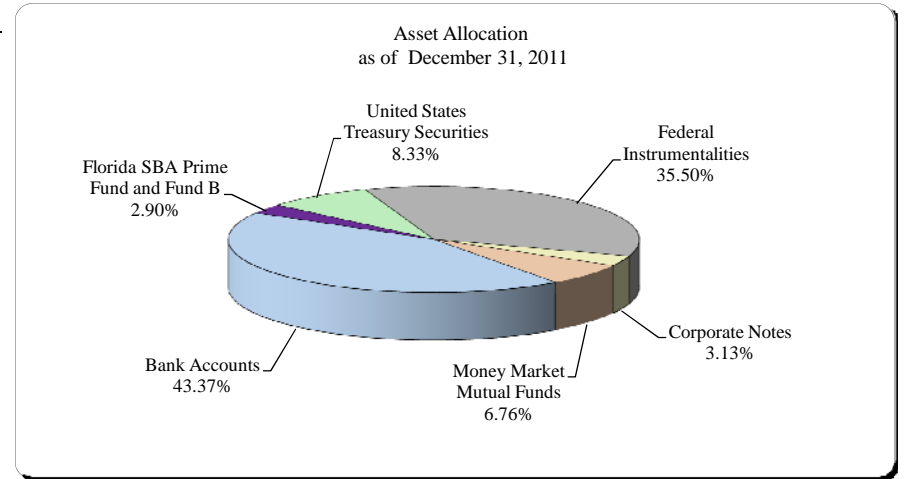
Notes:

1. Due to the nature of the security, Mortgage-Backed Securities are represented based on their average life maturity rather than their final maturity.

City of Hallandale Beach

Asset Allocation as of December 31, 2011*

| Security Type ³ | December 31, 2011 | Notes | Permitted by Policy |
|--|-------------------|-------|---------------------|
| Florida SBA Prime Fund and Fund B | 2.90% | | 100% |
| United States Treasury Securities | 8.33% | | 100% |
| United States Government Agency Securities | 0.00% | | 100% |
| Federal Instrumentalities | 35.50% | 1 | 100% |
| Certificates of Deposit | 0.00% | | 10% |
| Repurchase Agreements | 0.00% | | 20% |
| Commercial Paper | 0.00% | | 25% |
| Corporate Notes | 3.13% | | 15% |
| Mortgage-Backed Securities | 0.00% | 1 | 40% |
| Bankers' Acceptances | 0.00% | | 25% |
| State and/or Local Government Debt | 0.00% | | 25% |
| Money Market Mutual Funds | 6.76% | | 20% |
| Intergovernmental Investment Pool | 0.00% | | 25% |
| Bank Accounts | 43.37% | 2 | 100% |



| Individual Issuer Breakdown | December 31, 2011 | Notes | Permitted by Policy |
|---|-------------------|-------|---------------------|
| Government National Mortgage Association (GNMA) | 0.00% | | 40% |
| US Export-Import Bank (Ex-Im) | 0.00% | | 40% |
| Farmers Home Administration (FMHA) | 0.00% | | 40% |
| Federal Financing Bank | 0.00% | | 40% |
| Federal Housing Administration (FHA) | 0.00% | | 40% |
| General Services Administration | 0.00% | | 40% |
| New Communities Act Debentures | 0.00% | | 40% |
| US Public Housing Notes & Bonds | 0.00% | | 40% |
| US Dept. of Housing and Urban Development | 0.00% | | 40% |
| Federal Farm Credit Bank (FFCB) | 1.83% | | 40% |
| Federal Home Loan Bank (FHLB) | 9.66% | | 40% |
| Federal National Mortgage Association (FNMA) | 12.05% | | 40% |
| Federal Home Loan Mortgage Corporation (FHLMC) | 11.97% | | 40% |
| Student Loan Marketing Association (SLMA) | 0.00% | | 0% |

| Individual Issuer Breakdown | December 31, 2011 | Notes | Permitted by Policy |
|--|-------------------|-------|---------------------|
| CD - Bank A | 0.00% | | 10% |
| CD - Bank B | 0.00% | | 10% |
| Fully collateralized Repo - A | 0.00% | | 10% |
| Fully collateralized Repo - B | 0.00% | | 10% |
| CP A | 0.00% | | 5% |
| CP B | 0.00% | | 5% |
| CP C | 0.00% | | 5% |
| General Electric Corporate Notes | 1.67% | | 5% |
| Berkshire Hathaway Corporate Notes | 1.46% | | 5% |
| Corporate Notes - FDIC insured A | 0.00% | | 5% |
| Corporate Notes - FDIC insured B | 0.00% | | 5% |
| Corporate Notes - FDIC insured C | 0.00% | | 5% |
| BA Bank A | 0.00% | | 5% |
| BA Bank B | 0.00% | | 5% |
| PFM Funds Prime Series Money Market Fund | 6.76% | | 10% |
| Florida Prime | 2.41% | | 100% |
| SBA Fund B | 0.49% | | N/A |
| City National Bank Account | 36.87% | | 100% |
| Bank of America Bank Account | 6.50% | | 100% |

Notes:

1. The combined total of Federal Instrumentalities and Mortgage Backed Securities can not be more than 100%. The combined total as of December 31, 2011 is 35.50%.

2. Managed by the City.

3. End of month trade-date amortized cost of portfolio holdings, including accrued interest.

* No Bond Proceeds